

A Citizen's Guide to the Washington State Budget



January 2002

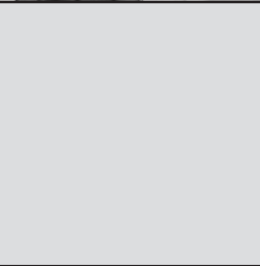
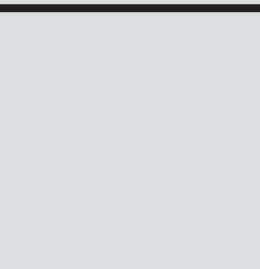
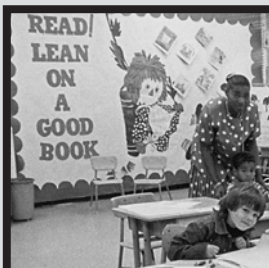


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Introduction

A Citizen's Guide to the Washington State Budget is offered as a resource for citizens, members of the Senate, their staff, and other interested persons to provide a clear and simple overview of the state budget and state revenues. It describes the three basic state budgets and their interrelationships, the sources of revenue that support those budgets, how the money is spent, the timeline for budget decisions and information about state debt and the Initiative 601 spending limit.

The guide was developed as a response to requests received by the Senate Ways and Means Committee for a brief and easy-to-understand document that would explain the state budget to the general public. The Legislature produces a number of documents and reports that provide highly detailed information regarding budget and revenue actions and the many programs and tax sources contained therein. This guide provides a pamphlet-style brief introduction to the state budget and taxes.

A Citizen's Guide to the Washington State Budget was prepared by staff of the Senate Ways and Means Committee (within Senate Committee Services) and the Legislative Evaluation and Accountability Program (LEAP) Committee. Questions regarding the guide or requests for additional copies should be addressed to:

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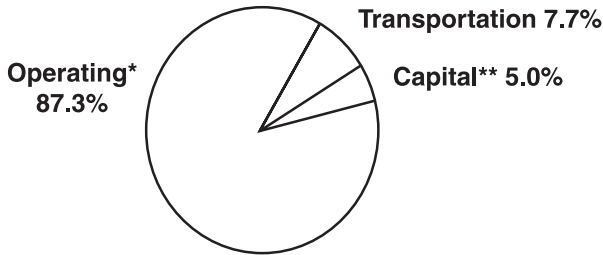
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Web site: www.leg.wa.gov/senate/scs/wm/default.html

How Big Is The State Budget?

In the 2001-03 biennium, the state of Washington will spend a total of \$49.7 billion. That's about \$68 million per day (on average) during the two-year spending period. This \$49.7 billion includes amounts from three different budgets, which are plans of how the state will spend the money. The three state budgets are described in the following:



2001-03 State Budgets
(Dollars in Billions)

Operating*	\$43.4
Transportation	3.8
Capital**	2.5
Total	\$49.7

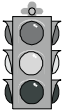
* Includes appropriations in other legislation (approximately \$25.1 million)

** Excludes Capital Re-appropriations (approximately \$1.6 billion)

Sources: Winsum and Buildsum budget development systems.



- The budget that pays for the day-to-day operation of state government (including federal funds and dedicated funds) is called the **Operating Budget (\$43.4 billion)**.



- The budget that pays for transportation activities such as designing and maintaining roads and mass transit is called the **Transportation Budget (\$3.8 billion)**. This budget includes amounts for both transportation operating activities (\$1.75 billion) and transportation capital activities (\$2.06 billion).



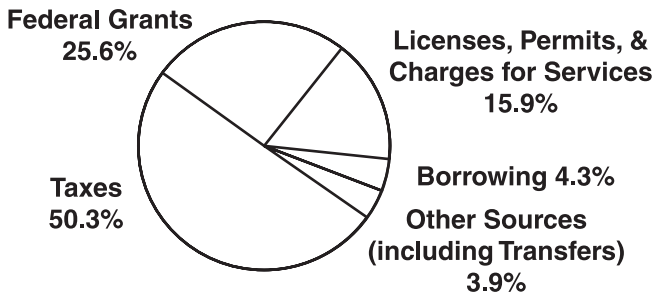
- The budget to acquire and maintain state buildings, public schools, public lands, parks and other assets is called the **Capital Budget (\$2.5 billion)**.

You may also have heard about the state “general fund” budget. This refers to the spending plan for the largest fund of the state; it represents more than half of the \$43.4 billion operating budget. A discussion of the state general fund budget begins on page 6.

Where Does This Money Come From?

To pay for its activities in the 2001-03 biennium, the state will tax citizens and businesses \$25.1 billion, receive federal and other grants of \$12.8 billion, collect fees, and assess charges for licenses and permits of \$7.9 billion, and borrow \$2.1 billion; other sources (including transfers) account for \$1.9 billion. The relative size of each of these sources is shown in the following chart.

Most of the money the state uses to pay for services comes from state taxes. Washington’s major tax sources include the sales tax, property tax and a rather unique tax called the Business and Occupation (B&O) tax, which is a tax on gross receipts rather than on profit or income. Washington is one of seven states that do not levy a personal income tax.



2001-03 Sources of Revenue
(Dollars in Billions)

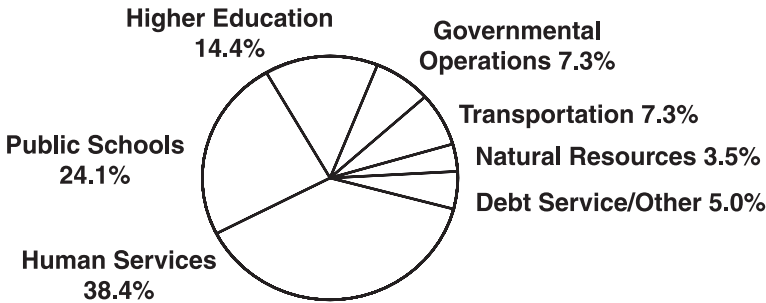
Taxes	\$25.1
Federal & Other Grants	12.8
Licenses, Permits, & Charges for Services . .	7.9
Borrowing	2.1
Other Sources	1.9
<hr/>	
Total	\$49.9

Note: Numbers do not add due to rounding.

Source: OFM Revsum database for 2001-03.

How Are These Funds Spent?

As the following chart shows, during the next two years, the state will spend a total of \$49.7 billion, which can be divided into seven major areas.



2001-03 All Budgeted Expenditures* (Dollars in Billions)

Human Services	\$19.1
Public Schools	12.0
Higher Education	7.2
Governmental Operations	3.6
Transportation	3.6
Natural Resources	1.7
Debt Service/Other	2.5
<hr/>	
Total*	\$49.7

* Excludes Capital Re-appropriations (approximately \$1.6 billion).
Sources: Winsum and Buildsum budget development systems.

Human Services, such as mental health and other institutions, public assistance, health care, and prisons, accounts for 38.4% of total expenditures. Most human services programs are partnerships between the state and the federal government with the federal government providing about half of the money and the state providing the rest. The state provides human services to 1 out of every 5 citizens, including services to over half a million children residing in Washington.

Public Schools, which includes funding for kindergarten through twelfth grade, comprises the next largest category of total expenditures, although it represents the largest component of the state general fund budget (see page 8).

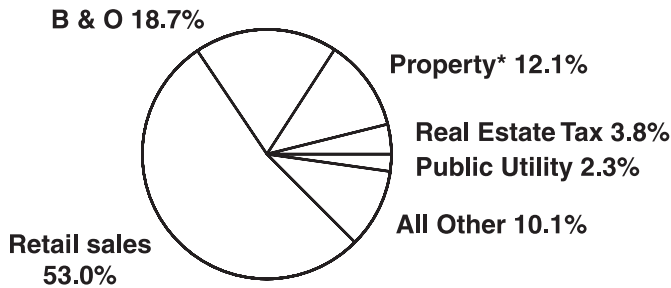
Higher Education, representing 14.4% of total budget spending, includes support for the state's four-year schools and community and technical colleges.

Transportation services and construction represent 7.3% of total budget spending including highways, state ferries, and the State Patrol, to name a few. The operating activities in Transportation account for over \$1.4 billion of total budget spending (just under 3%), and Transportation capital activities account for approximately \$2.1 billion of all spending (just over 4%).

Other total spending categories include Natural Resources activities for environmental protection, management and recreation, the administrative, judicial and legislative agencies in Governmental Operations, and other expenditures such as the payment of debt service.

What Is The State General Fund?

The state general fund is the largest single fund within the total state budget. It is the principal state fund supporting the operation of state government. All major state tax revenues are deposited into this fund.



**2001-03 Sources of
State General Fund Revenue**
(Dollars in Billions)

Retail Sales	\$11.2
Business & Occupation	4.0
Property*	2.6
Real Estate.	0.8
Public Utility	0.5
All Other	2.1
<hr/>	
Total.	\$21.2

* Excludes the amount transferred to the Student Achievement Account per Initiative 728.

Source: Economic and Revenue Forecast, November 2001

For the 2001-03 budget period, the state general fund will receive \$21.2 billion in revenues. More than half of that amount is from the state retail sales tax. The second largest tax is the B&O, which accounts for almost one fifth of the total, and the third largest tax is the state property tax, which accounts for about 12% of the total.

The state sales tax, the B&O tax, and the state property tax account for more than 80% of all state general fund revenues. In addition, the

general fund relies on a public utility tax, insurance premium taxes, real estate excise taxes and a number of other smaller taxes.

Contrary to popular belief, the state lottery does not “pay” for all of K-12 education. Currently, the lottery brings in about \$226 million per biennium; Initiative 728 requires the transfer of these funds to the Student Achievement Account and the Education Construction Account. The total state budget for public schools is about \$12 billion. That means the state lottery only supports about 2% of the K-12 education budget.

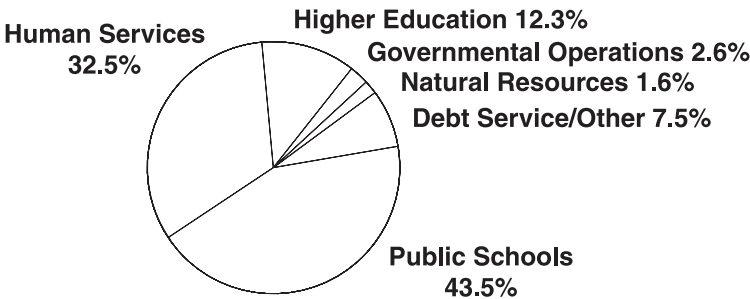
The major difference between the state general fund revenues (\$21.2 billion) and the total of all budgeted funds revenues (\$49.9 billion) is the dedication of revenue sources to specific uses. Most of the difference can be attributed to four areas:

- Federal funds for specific federal programs (\$10.6 billion)
- Higher Education specific funds (\$4.1 billion)
- Bonds for capital purposes (\$2.1 billion)
- Gas taxes for transportation purposes (nearly \$1.5 billion)

These four sources account for two-thirds of the difference between revenues available for all state government budgets and the state general fund budget.

How Is State General Fund Money Spent?

Because of the nature of its tax sources, the state general fund receives the most attention during the budget building process. As the following chart shows, during the next two years, the state will spend about \$22.8 billion (or about \$30 million per day on average) from the state general fund, which has been divided into six major areas.



2001-03 General Fund-State Expenditures (Dollars in Billions)

Public Schools	\$9.9
Human Services	7.4
Higher Education	2.8
Governmental Operations	0.6
Natural Resources	0.4
Debt Service/Other.	1.7
<hr/>	
Total	\$22.8

The largest single state general fund program is **Public Schools** which includes state support for K-12 education. Public Schools account for 24.1% of all budgeted expenditures but that share rises to 43.5% examining only the state general fund. By the end of the current biennium, the state will provide public education funding for 946,000 children.

Human Services state general fund spending consists primarily of the operating budget for the Department of Social and Health Services (DSHS), the states umbrella organization that provides medical, social, and income assistance to citizens in need. It also includes spending for the Department of Corrections and the Department of Health, among others.

Higher education spending includes funding for six public universities, thirty-four community colleges and technical schools, and financial aid to over 282,000 students a year attending both state supported and private colleges. Expenditures for Higher Education represent 14.4% of all budgeted funds and 12.3% of the state general fund. In addition to money from the general fund, Higher Education receives more than \$4.1 billion of dedicated revenues, principally grants and contracts, and tuition and fees.

Other general fund spending categories include Natural Resources, Governmental Operations, and other expenditures such as the payment of debt service.

Why Does The Budget Go Up Year After Year?

The budget goes up each year primarily because there are more citizens to serve, those services cost more, and because citizens may request new or different services. Public education may be the easiest example of these trends.

- Article IX, Sec. 1 of the Washington State Constitution declares “It is the paramount duty of the state to make ample provision for the education of all children residing within its borders . . .” The cost of meeting this constitutional requirement takes nearly half of the state general fund budget. In 1990 there were about 800,000 children in Washington State K-12 public schools. By the end of this biennium, enrollment will reach 946,000. The education of these additional children costs hundreds of millions of dollars. Over the same period, the population of the state as a whole is expected to increase over 1.2 million people, so there will be more taxpayers to shoulder these costs.
- Teaching supplies, materials, equipment and energy all will cost more in 2003 than they did in 1990, so the overall cost of educating each student will be more. Similarly, the personal income of the taxpayers on average will be greater.
- Finally, in 1993 the legislature passed new requirements for public education. Referred to as “education reform”, these requirements have and will continue to change the cost of education for each child. This too will cause the budget to go up.

How is the Budget Created?

Through the budget process, the Legislature and the Governor decide how much money to raise and spend. State agencies, the Governor, the Legislature, citizens and interest groups are all involved in this process. Washington State operates on a two-year (biennial) basis, beginning on July 1st of each odd-numbered year. For example, the current budget is for the period July 1, 2001 through June 30, 2003.

Agency Requests - In late summer and early fall of each even-numbered year, state agencies submit budget requests to the Office of Financial Management (OFM). The Governor reviews the requests and makes the final decisions for his or her budget proposal.

The Governor's Budget - By law, the Governor, as the state's chief executive officer, must propose a biennial budget in December of even-numbered years, the month before the Legislature convenes in regular session. The Governor's budget is his or her proposed spending and taxation plan for the biennium.

The Legislative Budget Process - After receiving the Governor's budget proposal, the Legislature reviews it and formulates its own budgets during the legislative session which begins in January. The chairs of the Senate Ways and Means and House Appropriations Committees work with their respective members and staffs to analyze the Governor's budget and develop recommendations and alternative proposals. The transportation portions of the budget are developed by separate committees in the House and Senate. Following tradition, the initiation of the budget alternates between chambers each biennium.

After each chamber has passed its version of the budget, the differences between the two must be reconciled in the budget conference process. Six fiscal leaders from both chambers and both political parties meet as a committee to prepare one legislative budget that is submitted to the full legislature for final passage and then ultimately delivered to the Governor for his or her signature.

The Governor may veto all or part of the budget, thereby eliminating funding for certain activities; however, the Governor cannot add money for an activity for which the Legislature provided no funding. Only after the Legislature passes a budget and the Governor signs it has the state created a real budget.

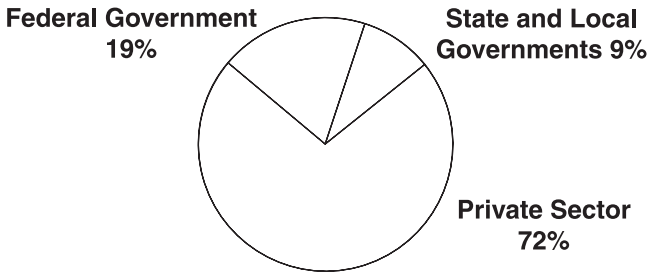
Supplemental Budgets - In even numbered years, the Legislature will consider changes to the biennial budget in what is called a Supplemental Budget. Generally, such changes represent mid-course corrections to the two-year spending plan to account for changes in school enrollments, prison populations, public assistance caseloads, or significant changes in the economy of the state.



Timeline of Budget Decisions (2001-03 Biennium)		
Formulation of the Governor's Budget	<p>State agencies prepare budget requests and submit them to the Office of Financial Management.</p> <p>↓</p> <p>The Governor reviews the requests and makes the final decisions about what goes in their budget.</p>	July 2000 - December 2000
Legislative Action on the Budget	<p>↓</p> <p>The Legislature reviews the Governor's proposed budget, develops its own budget, and approves revenue bills. The budget is signed or vetoed by the Governor.</p>	January 2001- April 2001
<i>The Biennium Begins</i>		July 2001
<p>↓</p> <p>Agencies execute the enacted budget.</p>		July 1, 2001- June 30, 2003
Supplemental Budgets	<p>The biennial budget may be adjusted in the 2002 and 2003 legislative sessions.</p>	Jan 2002- March 2002 Jan 2003- April 2003

How Significant Is Government In The Economy?

State governments, the federal government, and local governments represent about 28% of all the economic activity in the country, with the federal government financing more than two thirds of the public amount.



Source: A Citizen's Guide to the Federal Budget, Fiscal Year 2001, <http://w3.access.gpo.gov/usbudget/fy2001/guide01.html>

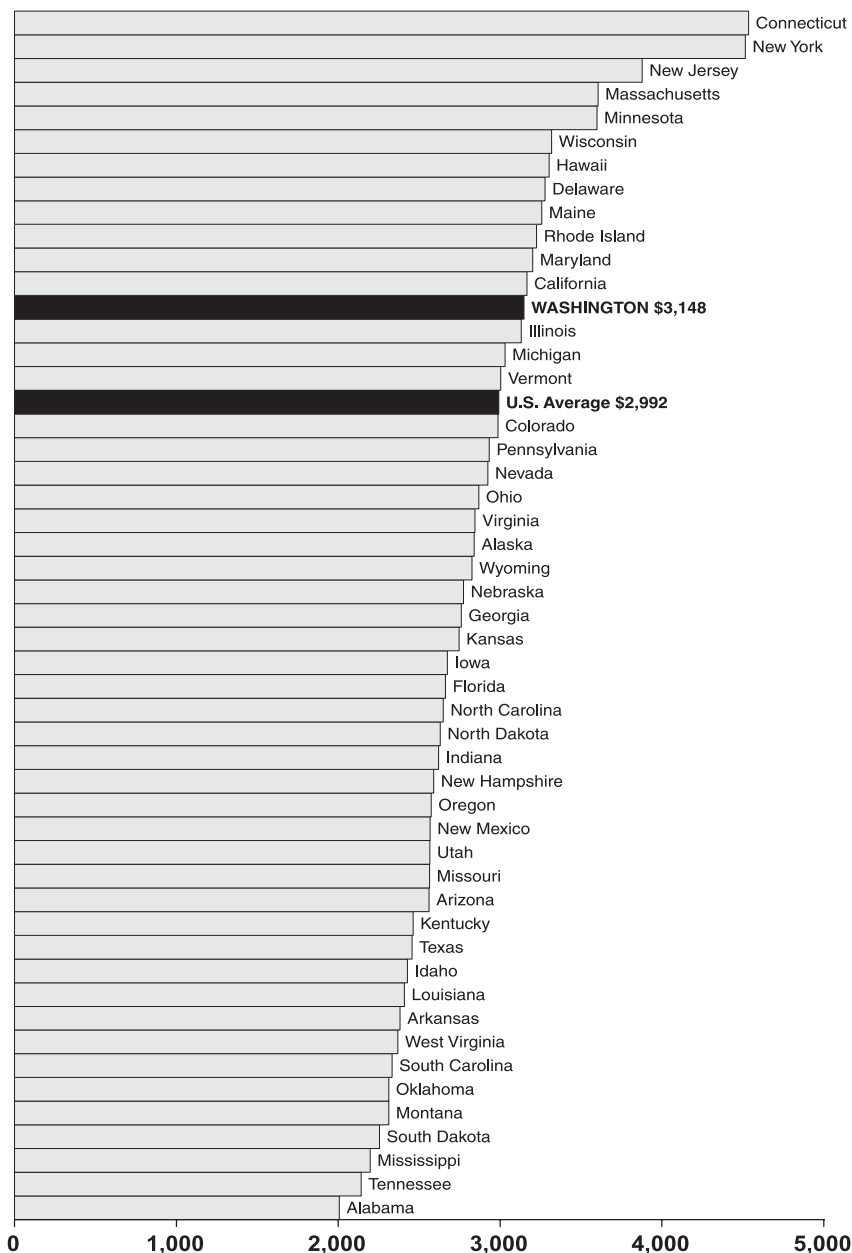
Analysis of state and local taxes per capita is typically used to compare the tax burden among the states.

For fiscal year 1999, the last year for which data is available for every state, Washington ranks 13th in state and local taxes per capita. As shown on the chart on page 14, state and local taxes per capita for Washington State is \$3,148, which is approximately 5% higher than the national average of \$2,992.

By combining both state and local taxes, it is possible to account for differences in the way each states budget operates. For example, in Washington, a large share of K-12 support comes from the state, while in many states it comes from local governments. By comparing taxes to personal income, it is possible to account for the differences in wealth among the various states.

The Washington State tax structure is noticeably different from that of typical states. The following chart shows the composition of the state and local taxes of Washington compared with the other 49 states. Washington (being one of only seven states without an income tax) has relatively high sales taxes and other taxes. According to data

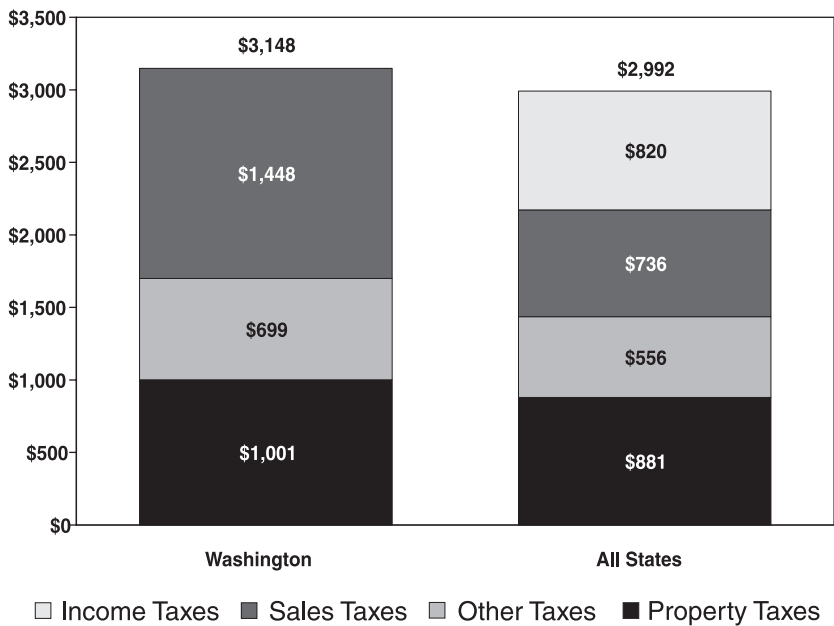
FY 1999 State and Local Taxes Per Capita



Source: Washington State Department of Revenue
<http://dor.wa.gov/reports/compare99/Tabs&Chrts.htm> Table 6)

on the Washington State Department of Revenue website (<http://dor.wa.gov/reports/compare99/Table9.xls>), Washington ranks 14th in per capita property taxes at approximately \$1,001 compared to the national average of approximately \$881.

Per Capita State and Local Taxes (FY 1999)



Source: Washington State Department of Revenue
(<http://dor.wa.gov/reports/compare99/Tabs&Chrts.htm> Table 12)

Why Does The State Borrow Money?

The capital budget and some transportation budget activities are paid for in large part by borrowing money. The state borrows money rather than paying cash through taxes for two reasons:

- Many of the assets the state acquires are very expensive. For example, the Special Commitment Center will cost about \$60 million.
- Washington's citizens will receive the benefits of these assets for many years to come. If the state paid for the assets the year they were acquired, current taxpayers would shoulder all of the burden for future taxpayers. Instead, the payment for the asset is spread over time to share the burden of paying among current and future taxpayers.

According to information on the web site of the Office of the State Treasurer, currently, the state has \$7.7 billion in outstanding debt (www.wa.gov/tre/out_debt.pdf). As the following chart shows, although debt is increasing on a per-person basis, it has remained fairly constant as a percentage of the total personal income of all of the citizens of the state.

Debt Ratios		
	State Debt per Person	State Debt as a Percentage of Total Personal Income
1991	\$793.50	0.44%
1992	917.03	0.44%
1993	966.90	0.45%
1994	1,033.24	0.46%
1995	1,050.88	0.46%
1996	1,085.38	0.45%
1997	1,149.61	0.44%
1998	1,142.81	0.44%
1999 Estimate	1,198.49	0.44%
2000 Estimate	1,252.78	0.43%

Source: Web site of the Office of the State Treasurer, www.wa.gov/tre/out_debt.htm

How Does the 601 Spending Limit Work?

In November 1993, the citizens of the state passed an initiative to limit the growth in state government spending and taxation. Initiative 601 put a “cap” on activities funded with general state revenues based on the amount of government spending in 1990, adjusted for population growth and inflation. When general fund tax revenues grow faster than the 601 spending limit, the extra tax revenue can be used to reduce taxes or be put into the “emergency reserve fund” that can only be used if two-thirds of the legislature agrees to use it.

During the 2000 legislative session, EHB 3169 modified the Initiative 601 spending limit. Among other things, the measure (1) created a state expenditure limit committee which would be charged with establishing the spending limit for each year; (2) reduced from five percent of biennial revenues to five percent of annual revenues the so-called “trigger” which determines when money will spill over out of the emergency reserve fund and into the education construction account; (3) clarified an interpretation which permitted the diversion of general fund revenues to local government without lowering the spending limit; and (4) allowed the 601 spending limit to be increased when state programs or revenues were shifted into the general fund.

This final change is often referred to as the “two-way street” provision and was used in the 2001-03 biennial budget to increase the 601 spending limit by more than \$500 million beyond what the growth factor and what other technical adjustments to the spending limit would have provided.

Due to the economic recession exacerbated by the terrorist attacks of September 11, total state general fund resources in December 2001 are more than a billion **less** than the current 601 limit. (“Total state general fund” resources are the combination of forecasted revenue plus the fund balance from the previous biennium.) Lower state general fund resources will restrict spending well below the 601 limit unless the Legislature significantly increases taxes or other revenues and fees deposited into the general fund.

Glossary of Commonly Used Budget Terms

Appropriation - A legislative authorization for an agency or other governmental unit to make expenditures and incur obligations (1) for specific purposes, (2) from designated funding sources, and (3) during a specified time period.

Biennium - The 24-month period from July 1 of odd numbered years to June 30 of odd numbered years, such as the 2001-03 biennium, which runs from July 1, 2001 to June 30, 2003.

Bowwave - The incremental carry-forward cost of a budget program that is partially funded in the current biennium. For example, a new program funded for only the second year of a biennium at \$10 million might cost \$20 million for the entire ensuing biennium. Thus, the program would have a bowwave of \$10 million, which represents the additional cost of that program for a full biennial spending period.

Current Services Budget - The term used to represent the ensuing biennium costs of current biennium programs and services (bowwave) plus the additional cost of mandatory activities such as caseload increases. The current services budget forms a base level of expenditures before consideration of policy changes.

Dedicated Funds - The product of reserving certain tax revenues for a specific purpose or purposes. Generally, any fund other than the general fund or a federal fund is referred to as a dedicated fund. There are literally hundreds of dedicated funds in the state treasury. Two of the largest are the Motor Vehicle Account, which receives gas tax revenues and is restricted to roads and highways, and the State Lottery Account, which accounts for revenues from ticket sales and is reserved for the cost of lottery operations and prizes.

Federal Funds - Monies provided by the federal government to support state programs. Major operating budget federal programs include Medicaid and the Social Services Block Grant.

Fiscal Year (FY) - The 12-month period from July 1 to June 30, expressed in terms of the first six months of the next calendar year. For example, the FY 2002 fiscal year runs from July 1, 2001 until June 30, 2002.

Full-Time Equivalent (FTE) Staff - Paid staff time equal to 2,088 hours per fiscal year. Generally, one FTE equals one full-time position, although an FTE may be composed of multiple part-time positions.

General Fund-State (GF-S) - The General Fund-State serves as the principal state fund supporting the operation of state government. All major state tax revenues (sales, business and occupation, property tax, and others) are deposited into this fund.

Office of Financial Management (OFM) - The Governor's budget office. OFM also maintains the statewide accounting system and central book of accounts, forecasts population and school enrollment trends, and prepares official census estimates.

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